



Is Canopy Growth (TSX:WEED) a Buy at These Levels?

Description

The delay in legalization at the federal level in the United States and a decline in cannabis sales have weighed on the cannabis stocks. Last month, Statistics Canada reported that Canada's legal recreational cannabis sales declined by 2.9% on a month-on-month basis in November. The decline has raised doubts about analysts' projection of total cannabis sales in Canada reaching \$8 billion by 2025.

Amid these concerns, **Horizons Marijuana Life Sciences Index ETF**, which has significant exposure to the Canadian cannabis industry, is trading 62.5% lower than its 52 highs. Meanwhile, **Canopy Growth** ([TSX:WEED](#))([NASDAQ:CGC](#)), which had reported an improved [third-quarter performance](#) earlier this month, is also trading at over 80% lower from its 52-week high. So, let's look at a possible buying opportunity in the stock. First, let's look at its third-quarter performance in detail.

Canopy Growth's third-quarter performance

During its third quarter, Canopy Growth's revenue had declined by 8% amid a 20% decline in its global cannabis sales. However, a growth of 19% from its other consumer products offset some of the declines. Supported by new product launches and expanded distribution, BioSteel and Storz & Bickel delivered a strong performance during the quarter. Canopy Growth's CBD business in the United States also witnessed robust growth during the quarter.

Meanwhile, the company's adjusted gross margin declined from 26% in the previous year's quarter to 13% due to a decline in production, price compression, and increased expenses related to third-party shipping, distribution, and warehousing. Despite lower sales and a decrease in gross margin, Canopy Growth lowered its net losses by an impressive 84% to \$115 million. A significant decline in its SG&A and R&D expenses dragged its net losses down. With a net cash outflow of \$168 million, the company closed the quarter with a cash and cash equivalents of \$1.4 billion. So, its financial position looks solid. Meanwhile, let's look at its growth potential.

Canopy Growth's outlook

Canopy Growth continues to be a market leader in the Canadian premium flower category, with a market share of 10%. It has recently launched 10 new high-potency premium products to strengthen its position further. The company has expanded its presence in the beverage and edible segments by extending its Deep Space brand products. Additionally, it focuses on streamlining new product development and improving the distribution efficiency to resupply fast-moving SKUs quickly.

In the United States, Canopy Growth has a significant presence through its BioSteel and Storz & Bickel brands. The company also owns warrants to acquire Acreage Holdings upon federal legalization. Meanwhile, Acreage expanded its footprint by acquiring operations in Ohio, establishing it as a market leader in the state. Further, Canopy Growth has acquired an option to buy Wana Brands upon federal legalization. So, the company is well equipped to expand its business in the United States.

Further, the decline in November recreational cannabis sales could be short-lived. Hifyre, a cannabis data provider, has estimated the December sales to be around \$370 million. So, [I believe the company's outlook looks healthy](#).

Bottom line

With the weakness in the broader equity markets amid the geopolitical tensions and rising inflation, I expect Canopy Growth to remain volatile in the near term. However, investors with over three years of investment time frame can accumulate the stocks for superior returns.

Analysts favour a "hold" rating for Canopy Growth, with 11 of the 20 analysts issuing a "hold" rating. Two analysts have given a "buy" rating, and seven favour a "sell" rating. Analysts' consensus price target represents an upside potential of over 22%.

CATEGORY

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